July 1989 Monthly Survey

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Surveys of Consumers

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Consumer Confidence Posts Small Gain: Cautious Optimism Prevails

Index Improves

The Index of Consumer Sentiment was 92.0 in the July 1989 survey, up from 90.6 in June. Although the July improvement was small, it did mark the first monthly increase since the start of the year. Nonetheless, the July reading still remained well below the 97.9 recorded in January 1989, and below the 93.4 recorded last July.

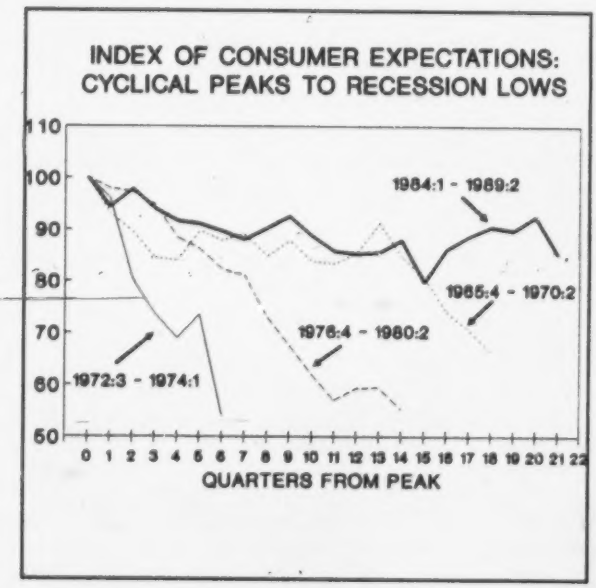
The small July improvement was due to more favorable assessments of prospects for the national economy, supported by declines in interest rates.

The recent improvement in sentiment was concentrated among higher income families. Among families with incomes of $40,000 or more, the Index stood at 101.9 in July, up substantially from the 95.4 recorded in June, nearly recapturing the 103.9 recorded one year earlier.

Leading Indicator Component Posts Second Improvement

The Index of Consumer Expectations rose to 85.5 in July from 82.0 in June and 80.1 in May. This was the first consecutive improvement recorded in nearly a year, moving the Expectations Index above the 82.3 recorded one year earlier.

In contrast to the improvement in the expectations component, consumers' evaluations of current economic conditions were less favorable. The Current Conditions Index fell to 102.1 in July, from 104.1 in June and 107.1 in May. Much of this weakness was concentrated in consumers' less favorable assessments of their current financial situation.



The chart above shows the pattern of change in the Index of Consumer Expectations from past cyclical peaks to recession lows. The data charted for each period represent the percentage of the

peak reached during that economic expansion. As can be seen from the chart, the decline prior to the 1973-75 recession was the sharpest (even before the onset of the oil embargo), followed by the decline prior to the 1980 recession. The changes recorded in the Index since the 1984 peak have been modest and most comparable to the expansion during the late 1960s. The expansions in the late 1960s and late 1980s are also similar in that both were marked by an extended period of slow economic growth.

Personal Finances Weaken

The proportion of families that reported improved finances declined in the July 1989 survey. Fewer families reported that their income had increased and more families voiced concerns that rising inflation had diminished their living standards. Although personal financial prospects have diminished, rather than turning negative, the movement has been toward the expectation of an unchanged financial situation.

Among all families in the July 1989 survey, 41 percent reported that their financial situation had improved, down from the 45 percent recorded in July 1988. When asked to explain how their financial situation had changed, the proportion that reported income increases fell to 32 percent in July 1989 from 40 percent one year earlier, while complaints about price increases rose to 16 from 11 percent.

When asked about prospects for the year ahead, 35 percent of all families in the July 1989 survey reported that they expected their financial situation to improve during the year ahead, down from the 38 percent recorded one year earlier. Importantly, half of all families expected their financial situation to remain largely unchanged during the year ahead, considering changes in both incomes and prices. Just 12 percent of all families expected their financial situation to worsen.

Outlook for Economy:
Good Times Means No Recession

When asked about prospects for the economy as a whole, more families expected the performance of the national economy to remain unchanged in the July survey than anytime since the mid 1960s. Among all families 63 percent expected the performance of the national economy to remain unchanged in the July 1989 survey, up from 53 percent in July 1988. Among the balance of families, an improved economy was expected more often than a worsened situation by the margin of 20 to 14 percent.

Given the length of the current expansion and the expectation of continued economic growth (even if slow), the majority of families thought that good times financially would be maintained in the country as a whole during the year ahead--53 percent in July 1989, up from 48 percent one month earlier and 44 percent one year earlier.

While most families expected the economy to avoid recession during the year ahead, families did not expect that the economy to avoid a recession over the longer term. Although the outlook for the economy over the longer term also improved in the July 1989 survey, regaining the level recorded a year earlier, it still remains negative on balance. Among all families, 39 percent expected good times financially during the next five years, less than the 43 percent expected the reoccurrence of a recession over that time horizon.

Mortgage Rate Declines
Revive Home Buying

Favorable attitudes toward buying conditions for homes were held by 64 percent of all families in the July 1989 survey, up from the Spring low of 58 percent in April. but still below the 72 percent recorded in July 1988. The improvement since the Spring has been due to declines in mortgage rates. Despite the recent improvement, home buying

attitudes are still less favorable than a year earlier due to less favorable perceptions of home prices.

Complaints about high mortgage rates fell to 15 percent in July 1989, from 23 percent one month earlier and 28 percent three months earlier. At the same time, favorable perceptions of current mortgage rates rose to 27 percent in July, up from 22 percent in June and 16 percent in April.

Favorable perceptions of home prices were held by 19 percent of all families in the July 1989 survey, down from 24 percent one year earlier. Complaints about high home prices rose to 18 from 13 percent during the past year. Consequently, while nearly twice as many respondents reported favorable as unfavorable perceptions of home prices a year ago, the proportions are now nearly equal.

Household Durables

Favorable attitudes toward buying conditions for furniture, appliances and home electronic goods were held by 71 percent of all families in the July 1989 survey, unchanged from the month earlier reading but below the 79 percent recorded a year earlier. The decline from the year earlier reading was due to somewhat less favorable perceptions of prices on these household durables. Among all families, favorable assessments of market prices fell to 31 percent in July 1989 from 34 percent one year earlier, while unfavorable price assessments rose to 10 from 6 percent.

Vehicle Buying Attitudes

Favorable car buying attitudes were held by 64 percent of all families in the July 1989 survey, up from 61 percent one month earlier and 62 percent one year earlier. Overall, the proportion of families holding favorable attitudes toward buying conditions for vehicles has remained in a relatively narrow range during the past year (from 60 to 65 percent). This stability is in part due to the expectation that price and interest rate discounts have become a permanent feature of the market.

One-third of all families mentioned the availability of price discounts in the July 1989 survey, unchanged from one month and one year earlier. Discounted interest rates on vehicle loans were mentioned by 19 percent of all families in July 1989, up from 14 percent one year earlier.

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The July 1989 survey included 501 completed interviews conducted between July 1 and July 31, 1989.